



FY2006 Strategy Statement

USAID/Bosnia and Herzegovina

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INTRODUCTION

Bosnia and Herzegovina (BiH) is located in the stable, but precarious, Western Balkans area of south-central Europe. It declared independence from the former Yugoslavia in 1992, and the subsequent three years of war left its industry, infrastructure and economy in a shambles. The size of West Virginia, it has a population of about four million, and remains one of the poorest countries in the region. Nonetheless, it has made considerable progress in the decade since the war. Despite continuing profound weaknesses in the economy, economic growth has been remarkable. More than one million refugees and IDPs have returned to their pre-war homes, and the Government has administered two free and fair elections.

These achievements were made possible by the Dayton Peace Accords, which stopped the war and provided a political structure for normalization. Nevertheless, as the country strives toward European integration it is becoming increasingly obvious that BiH needs more effective and efficient government. BiH still has an international protector in the Office of the High Representative (OHR), which acts as the ultimate governing authority. Although this international presence has driven reforms, it has also slowed political maturation and impeded local ownership of the reform process. Dayton created a fragmented, multi-layered government that has diffused responsibility, is ultimately unsustainable, and is impeding economic growth. A return to violence is unlikely, but deep-seated social cleavages and festering grievances demand alertness to the potential for conflict. BiH's transition into a modern state is impeded by the lack of a shared vision of its political future. The Serb entity fiercely protects its independence and resists attempts to consolidate governance at the state level. Nevertheless, the political parties have compromised to establish a number of key state-level institutions.

BiH has achieved a high degree of macroeconomic stability, including low inflation and a stable currency, but its high current account deficit is a mark of its persistent lack of competitiveness. Large but declining foreign assistance flows have been essential to maintaining its economic stability. The economy is fragmented, over-regulated, and dominated by state-owned enterprises. For these and other reasons, the non-observed economy accounts for more than half of GDP and up to three-fourths of the employment of young people. BiH's small market, poor infrastructure, and weak rule of law discourage foreign investment. Corruption continues to plague all aspects of government and society and severely impedes reforms. Environmental concerns deter economic growth, particularly in tourism, agriculture, electric power, and forestry and wood processing, all sectors with high potential for increasing exports. BiH's post-conflict environment has been vulnerable to trafficking in persons. Its severe socio-economic disruption, weak rule of law and official corruption all contribute to the problem.

These problems, which USAID's current and proposed strategies are designed to address, are reflected in the analyses of the E&E Bureau's Monitoring Country Progress (MCP). BiH performance is high in investing in people and low in both ruling justly and promoting economic freedom. In terms of governance, 2006 will be a watershed year for BiH. It will hold national and entity elections, and OHR will probably evolve into an EU Special Representative without extraordinary powers. The country will need considerable assistance to weather this transition, which USAID will continue to provide.

The overriding U.S. interest in BiH will remain the conversion of this multi-ethnic country from a source of regional instability to a peaceful, viable state on the road to European integration.

THE CONTEXT OF USAID ASSISTANCE TO BOSNIA AND HERZEGOVINA

Background

USAID's strategy for assisting Bosnia and Herzegovina beginning with FY 2006 builds on the assistance USAID and other donors have provided and on the progress the country has made over the past decade. The assistance strategy will formally move beyond its post-conflict reconstruction character and focus on BiH's current need to deepen economic reform, strengthen its institutions for democracy and governance, and build a viable state. The implementation of the current strategy has, in fact, already evolved from post-conflict assistance toward transformational development. In the past three years the Mission has undertaken 23 technical and three cross-cutting (Gender, Bio-Diversity, and Conflict Resolution) assessments that have guided its current sector programming and provided the basis for designing new activities. They support the new strategy.

The Mission's current strategy and program direction were affirmed by an Interagency Country Assistance Review (ICAR) held in Sarajevo in early 2005. Based on MCP data, the ICAR examined the accomplishments of all U.S. assistance programs during the past three years and reviewed the challenges facing BiH over the next three. It concluded that the USAID programs were effectively addressing their objectives and appropriately focused on the key areas of economic development, building democracy, and combating trafficking in persons. The ICAR confirmed that the assistance programs have an indefinite life, with phase-out "beyond 2014." All of the ICAR's recommended priority areas for future involvement are key components of this strategy. The strategy has also been informed by analyses prepared by other International Community (IC) actors and the Government of BiH. The EU Feasibility Study¹ outlines 16 priority items that BiH needs to accomplish in order to advance its Stabilization and Association Agreement (SAA) negotiations with the EU. These priorities help set the agenda for USAID programs. More directly related to USAID's agenda is the BiH Medium Term Development Strategy (MTDS) for 2004-2007.² The USAID strategy supports MTDS objectives to create a competitive economy and speed the pace of EU accession.

USAID's \$890 million in assistance from 1996 to 2000 had two principal objectives: Repair war-damaged infrastructure to facilitate minority refugee and IDP returns and recreate multi-ethnic communities, and jump start the private sector in the face of a collapsed banking system by injecting liquidity and assisting small and medium enterprises. Under its 2001-2005 Strategic Plan, USAID provided another \$200 million for three strategic objectives that supported minority returns; assisted economic restructuring; and aided in building democratic institutions. Most refugees and IDPs who were going to return did so by 2005. At that time, UNHCR estimated that approximately one million of the estimated two million refugees and IDPs had returned to their former homes. The property rights of 99 percent of the refugees and IDPs have been settled. USAID's SO for minority returns in the 2001-2005 Strategic Plan has met its objective. Further investments would not be developmentally cost effective, and the SO is not part of the new strategy.

Although BiH is now more ethnically segregated than it was before the war, USAID and other donor programs have helped re-establish multi-ethnic communities in areas that had been ethnically cleansed. Significant progress has been made in both economic restructuring and democracy building, but the transition to a modern market economy and democratic governance has only begun. Ten years of peace,

¹ *Report from the European Commission on the Preparedness of BiH to negotiate a Stabilization and Association Agreement with the European Union* (2003)

² This is the Poverty Reduction Strategy Program (PRSP) BiH developed with World Bank and others' assistance.

a series of technically sound elections, and solid economic growth have yet to produce a shared vision of the nation's future. This will require much more work.

Political and Democratic Development

Dayton marked the end of the war and provided BiH with a new and complex government structure. Following the peace agreement, and with the support of the IC, the new BiH achieved some considerable successes. Armed paramilitaries were eliminated, the armies organized on ethnic lines were reduced, and freedom of movement across the country was restored. For the past ten years, Dayton (and the presence of a significant NATO peacekeeping force) has provided the basis for relative political stability. The effects of ethnic cleansing, although still apparent, have been mitigated through property law implementation and refugee returns.

Unfortunately, Dayton also put in place a largely dysfunctional governance structure that was designed to ensure ethnic safeguards. It created two sub-state entities – the Muslim-Croat Federation of BiH and the Republika Srpska – and the independent District of Brcko. Too many layers of government, especially in the Federation, which is further divided into 10 cantons, have diffused responsibility. It left the BiH State government small and with only limited competencies. BiH lacks a mechanism to create a consistent and coordinated vision of its future as a modern state. The EU Feasibility Study points out that only a coherent functioning state can create a consensus and a single national position on economic and political development, which is needed to successfully negotiate an Stabilization Association Agreement (SAA).

Frequent democratic elections have been held since Dayton, but except for the period 2000-2002, nationalist parties have held sway. The development of democratic institutions and legislative processes has been held in check by the concerns of ethnic national interests or their vested financial interests. BiH politicians have shown limited interest in reforms that would move towards a more coherent government, instead blocking policies or decisions they regard as detrimental to their parties' power structures or financial interests. Corruption pervades the political system and impedes effective government representation. The Serb entity is fiercely protective of its independence and resists attempts to consolidate governance at the state level. The path to a stronger state has largely been pushed by the OHR, the country's international overseer. The United States, OHR, and other international donors have facilitated a functional reform process to shape policies and forge consensus among the three ethnic groups on key issues of national importance, including taxation, debt management, intelligence, and defense. Their efforts have started to move BiH toward a more coherent and stronger state government. The political parties have compromised to establish a number of key state-level institutions: Ministry of Defense, intelligence service, State Border Service, and Indirect Tax Administration. Implementation of a state-wide value-added tax is planned but not yet implemented. Serb resistance to police reform and Croat resistance to a public broadcasting law are impeding accession discussions with the EU. BiH has also become a member of the Council of Europe and is moving toward membership in NATO's Partnership for Peace Program. It is also working, albeit fitfully, toward membership in the World Trade Organization.

The extensive powers vested in OHR have limited the BiH politicians' ownership of and accountability for the reform process.³ OHR's role as reformer and its pressure for quick passage of reforms stifle the vibrant political debate that would otherwise force local leaders to forge consensus and take

³ These powers to impose legislation and remove from office persons whose actions obstruct the peace process were given to the High Representative by the Peace Implementation Council in Bonn in 1997.

responsibility for the reforms. This has delayed the development of self government and, consequently, EU integration. OHR's expected departure, or at least its substantial reduction in capacity and authority, by the time of the next national elections in late 2006, could simultaneously create a vacuum in the reform process while also providing an opportunity to introduce true self governance. It is not clear, however, that the required BiH leadership will emerge to keep the country from backsliding.

Economic Development

BiH's economy has made significant strides since the war. In 1995, GDP had dropped to 20 percent of its pre-war levels. As a result of the very high donor inflows in the initial years after the war, the annual growth rates were about 10 percent through 2000. As donor aid declined, real GDP growth slowed to 4.5 percent in 2001, 3.9 percent in 2002, and to only 3.5 percent in 2003 during a severe drought. Growth for 2004 was a respectable 5.1 percent and is expected to grow at rates around 6 percent from 2005 through 2008. GDP has more than tripled since 1995 and is now at 70 percent of its pre-war levels. The banking sector has been successfully privatized, a liberal trade policy has been implemented, and significant fiscal adjustments have been achieved, with improvements made across the board in public finance and some initial reforms introduced in the social sector.

BiH has developed sound macroeconomic policies, achieved remarkable macroeconomic stability, and made some progress with structural reform. The Currency Control Board has stabilized inflation, which has stayed below 2 percent since 2001 and is expected to remain low. Although merchandise exports have increased tenfold since 1995, exports still trail imports by a factor of three to one. The current account deficit is a continuing risk to the BiH economy, one that is exacerbated by decreasing levels of donor assistance. Foreign exchange reserves remain adequate and have been kept so by the flow of remittances from the BiH Diaspora and expenditures made by the large number of foreigners living in BiH. The fiscal situation in BiH has been improved at all levels through the introduction of modern treasury and tax administration systems coupled with strengthened enforcement efforts. As a result revenues and expenditures are generally in alignment.

While the fiscal and macroeconomic situations have stabilized, the population remains poor. Official unemployment stands at about 40 percent, although actual unemployment is probably about 20 to 25 percent taking into account the sizeable non-observed economy, which is estimated to be over 50 percent of GDP.⁴ The 2001 World Bank Living Standards Measurement Survey (LSMS) estimated that 20 percent of the population lives below the poverty line and another 30 percent near it. Women are particularly hard hit. Their rate of participation in the labor market, estimated to be 28 percent by the World Bank and 37 percent by UNDP, is the lowest in South East Europe.⁵ In sum, the BiH economy appears to have completed its post-conflict adjustments and overcome the basic economic hurdles, but substantial work needs to be done. The economic challenges now are for the most part transformational – creating a facilitating environment for business growth and making businesses more competitive in the global market. The country must also pay attention to protecting its natural resources to ensure sustainable economic growth in its priority sectors.

⁴ In 2003, the components of the NOE as a percent of the official GDP were: illegal activities 4.36%; shadow economy (businesses not registered and not reporting income) 33.15%, and statistical under-reporting 15.09%. The NOE was thus 52.6% of the official GDP. *Estimate of Unobserved Economy in BiH*, Robert Dell'Anno and Marje Piirsid, FSVC for USAID: November 2004.

⁵ See USAID Bosnia Herzegovina Gender Assessment March 2005.

Other Development Assistance

In the first seven years after Dayton, BiH received nearly \$5 billion in humanitarian and reconstruction assistance, about 75 percent of which was in the form of grants. Total assistance levels have been declining for the past few years; in 2005 official grants fell below \$300 million and are expected to fall below \$200 million by 2007. Official loans during the period 2003-2007 are estimated to be at a level of \$100-150 million per year. Donor assistance is critically important to BiH as it covers roughly 25 percent of its annual current account deficit. The largest official grant donor is the EU, and the principal lenders are the World Bank and EBRD. The EU program is concentrated on helping BiH in areas required for it to begin the Stabilization and Association Process that will eventually take BiH into the European Union. The World Bank's lending program broadly supports the MTDS goals. The standby agreement with the IMF expired with the last tranche of funds in March 2004, and negotiations for a new agreement have stalled over a number of issues.

The USG is the largest bilateral donor, with USAID managing about 60 percent of total USG SEED assistance. Sweden is second and is followed by the Netherlands, Italy, Switzerland, Japan, Canada, Norway, and the United Kingdom. USAID collaborates closely with the World Bank, as well as CIDA, EC, and EBRD, by providing technical assistance for restructuring the power sector and creating a unified regulatory body. USAID is co-financing its activities in local government and anti-trafficking with Swedish Sida. USAID is also discussing a joint activity with Norway to support information and communications technology development for SMEs.

PROGRAM RATIONALE AND OPERATIONAL GOAL

The USAID program directly supports the overriding U.S foreign policy interest in BiH as defined in the U.S. Government's Mission Performance Plan, which is to change this multi-ethnic country from a source of regional instability to a peaceful, viable state on the road to European integration. We measure progress in terms of BiH's movement toward membership in the European Union. The people of BiH accord a special degree of trust to the United States for its role in ending the 1992-95 conflict, and USAID is in an excellent position to build on this relationship to help BiH to make the key reforms required for EU accession. USAID will continue to assist in the following basic areas. It is helping to reform the BiH governance system from one designed to make a patchwork country of estranged peoples into one where state and local level institutions operate like a modern democracy. It is helping to establish the rule of law to ensure fair and transparent judicial processes and the protection of human and property rights. And it is promoting economic growth by improving the environment for private investment in small and medium enterprises, and by increasing incomes, competitiveness, and employment. USAID is also strengthening the BiH government's capacity to combat trafficking in persons, a USG priority. The Mission's work to restructure the power sector supports the USG's Presidential Initiative for Global Climate Change.

The strategy will work to build on the current stable economic situation and support the development of a longer term effort that aims at EU accession. It will also take into account the fact that, as well as addressing transformational problems, the USAID program will focus on reducing and eliminating weaknesses at the core of BiH's fragility – the governance structure.

Although the Agency *White Paper*⁶ characterizes BiH as a middle-income transformational country, BiH also exhibits characteristics of a fragile state.⁷ During the post-war period, BiH has attained a high level of political and economic stability and has begun to focus on mid-term development plans. The governance system created by Dayton and the continuing lack of a common vision of the state and where it should be headed are the sources of the potential fragility. There is virtual consensus that the current BiH system of governance, with its overlapping responsibilities among the state, entity, cantonal, and municipal governments, is burdensome and badly in need of revision. Most seriously, the unproductive bureaucracies that absorb about 50 percent of GDP are fiscally unsustainable and a serious deterrent to private investment and economic growth.⁸

USAID staff recently developed a consensus vision statement that captures the essence of the program rationale and its overriding goals:

USAID assists Bosnia and Herzegovina in achieving its potential as a peaceful, democratic, forward-looking prosperous country. Our programs help develop the rule of law and a market-oriented economy serving the interests of BiH citizens. USAID strives to help BiH become a welcomed member of the European Union.

STRATEGIC OBJECTIVES: PROBLEMS TO BE ADDRESSED AND EXPECTED RESULTS

Bosnia and Herzegovina's needs have moved significantly beyond humanitarian assistance and post-conflict recovery. It now faces the challenges of state building and economic growth. Its political and governance institutions do not function as they should in a modern democracy. Although it is an emerging capitalist market economy, it has not sufficiently transitioned from its socialist roots to create an investment and business environment in which firms are competitive on the global market, or which attracts foreign investors. Its continued progress toward EU accession will demand significant political and economic reforms and restructuring, and for that BiH will continue to need international assistance to respond adequately.

USAID's program is designed to help BiH meet these needs with strategic objectives for economic growth and democratic development. A complementary objective for program support includes combating trafficking in persons. The life of the strategy statement is indefinite and the life of each strategic objective will be through 2010. Program resources include appropriated SEED funds for all of the strategic objectives as well as local currency reflows that are to be used to support economic growth. The program also addresses cross-cutting themes that are major concerns under both strategic objectives: gender, corruption, conflict resolution, and environment.

From the inception of the USAID program in the immediate post-war environment, conflict resolution was its driving theme. It was then articulated in the goal of recreating stable, multi-ethnic communities. It remains an important cross-cutting theme in both the democracy and economic restructuring programs. Building a governance system that accounts for ethnic concerns, while moving toward a unified state, contributes directly to conflict resolution. So too does building economic security and creating a single economic space. A conflict resolution assessment funded by USAID confirmed that the prospects for large scale violence in the short term are low (Annex 1). The assessment also pointed out,

⁶ White Paper *US Foreign Aid Meeting the Challenges of the Twenty First Century*, USAID January 2004

⁷ Draft E&E Bureau Strategic Development Framework 2004-2007

⁸ BiH has a potentially enormous debt overhang as a result of domestic war claims. How these are settled will greatly affect the fiscal sustainability of government.

however, some continuing conditions that could lead to conflict. USAID programming will be highly sensitive to these issues.

BiH has the lowest female labor market participation in South East Europe at only 37.2 percent. Gender is one of UNDP's three priority areas in reaching the Millennium Development Goals in BiH. The basis for reform was the passage of the Gender Equity Law in 2003, but compliance is limited. A gender assessment was completed for USAID/BiH early this year (Annex 2). The recommendations for integrating and mainstreaming gender will provide guidance for incorporating gender into the planning and implementation of activities during this strategy period. The aim will be to improve participation rates for women.

Corruption is a serious problem in BiH as reflected by Freedom House and a number of other third party observers. The BiH MTDP has an action program for reducing corruption (Annex 7). USAID will focus on areas identified as central to the government's initiative for reducing corruption. These activities fall under both the economic growth and democracy programs. The USAID justice sector program will help modernize commercial departments in the court system so they become independent, efficient and transparent and, as such, less exposed to manipulation in the business sphere. Local government systems will be strengthened to enhance public finance and control systems to make them more accountable and transparent. The civil society program will support NGOs in carrying out watchdog functions to ensure that government actions at all levels are responsive to public needs and carried out effectively. Corruption is rampant in the realm of business registrations, permits, and licensing. USAID will initiate a new program to reduce the complexities of these systems, make them more transparent, and thus provide less of an opportunity for bribes. USAID is also considering support to strengthen the government audit function.

Environmental issues in BiH are a significant deterrent to economic growth. Tourism, agriculture, electric power, and forestry sectors, key areas of focus for economic growth, are all constrained by environmental concerns. Access to water, effective waste disposal, and protection of natural resources depend upon effective environmental management at the local level. Foreign and local businesses cannot export to EU member countries due to a lack of health and sanitary standards for agricultural products. Urban areas that could otherwise be tourist attractions are made less attractive due to the poor handling of waste and general lack of cleanliness. About 90 percent of the municipal and industrial wastewater generated in BiH is released without any treatment. Forestry, a key natural resource sector in the BiH, suffers from government mismanagement, resulting in illegal logging and inadequate replanting. Techniques to improve sustainable resource management, to reduce pollution, and to improve access to clean water and sanitation will be incorporated as appropriate in our activities to develop SMEs and strengthen municipalities. Assistance will be aimed at increasing profitability and environmental efficiency of important industries. Assistance to the public sector, particularly at the municipal level, might address areas such as managing waste, improving municipal environmental planning, and enhancing public awareness. Interventions will be replicable and will support the democracy and economic strategic objectives.

Accelerated Private Sector Development (Strategic Objective 1.3)

Problem: BiH has to complete the transition to a functioning modern market economy from its prewar socialist economy. It needs to harmonize the required market reforms across its multi-layered governments in order to create a viable single economic space. BiH has come a long way in the ten years since the war, and its economy has recovered considerably from its initial devastation. Massive

international assistance fueled rapid GDP growth. It now must sustain economic growth with reduced foreign assistance, and do so in the face of the large inefficient public sector. Some reforms have been effectively carried out. The restructured and privatized banking sector has flourished, although state level integration of bank supervision is still unfinished. The Currency Control Board has enabled BiH to enjoy macroeconomic stability and control inflation. But much more remains to be done. The legal and regulatory environment for business must be reformed to encourage private investment and SME development. Restructuring the publicly owned, monopolistic energy companies, and establishing a regulatory regime, are needed to effectively exploit BiH's considerable hydroelectric resources.

Statement: This Strategic Objective aims to develop private sector-led growth and employment. It will help stimulate private investment and foster a healthy SME sector that can produce goods and services for export and domestic consumption, provide jobs, and fund a reasonable level of government services. It will help create an SME-friendly environment, enabling them to reduce their costs of doing business. The program will assist in improving the competitiveness of key business sectors.

Result: The program will increase economic freedoms in BiH. The legal, regulatory, and administrative framework facing SMEs will be reformed, specifically with a view to lowering the cost of doing business, reducing risks and expanding revenue and profit potential. The program will increase the private sector share of GDP.

1.0 Economic Transition Components

The following program components will comprise the areas of USAID support required to help BiH meet the challenges of economic growth. Some of the key issues in each sub-sector are also identified.

1.1 Build Global Trade and Investment Capacity

Problem: BiH is not yet competitive on the world market, with exports trailing imports by a 3:1 margin. In 2003, with a GDP of approximately \$5.2 billion, BiH had a trade imbalance of \$1.3 billion. The current account deficit actually improved from 19.9 percent of GDP in 2002 to 17.7 percent in 2003, in part due to remittances from émigrés and expenditures by the large foreign community living in BiH. Nonetheless, the resistant current account deficit, one of the highest in the world (as a percent of GDP), remains an area of potential instability and concern. Increasing exports and improving the competitiveness of BiH firms are significant challenges. With a small market that has little spending power, BiH offers relatively little incentive for companies to locate facilities in the country. Moreover, its investment climate is one of the worst in South East Europe, with widespread corruption and complex rules governing businesses. As a result, foreign investment remains low. Between 1996 and 2002, BiH attracted about \$710 million in FDI. The total per capita inflow of FDI in the postwar period has been around \$166, far below the average for countries in transition. The comparable figure for Croatia was \$1,321; for Bulgaria, \$480; and for Romania, \$288. FDI levels in Macedonia and Albania are three times higher than in BiH. Although the inflow of FDI in 2002 grew to \$240 per capita, a 100 percent increase over the previous year, the dearth of foreign investment in BiH clearly indicates the need to continue developing a single economic space and a positive investment environment.

Description: USAID's support will be structured according to the capacity of BiH counterpart institutions to absorb the assistance. USAID will coordinate closely with the Commercial Law Development Program (CDLP) of the U.S. Department of Commerce, which is assisting BiH to accede to the WTO, probably by the end of 2006. Assuming it does, USAID will provide long-term assistance by building trade capacity, assisting in compliance with WTO requirements and other international

standards, and facilitating regional trade. This USAID-funded assistance will complement EU plans to help BiH develop its competition and trade policy beginning in 2005. EU assistance will help produce an effective legal and institutional framework for combating anti-competitive behavior in the BiH marketplace in accordance with EU standards. It will also help build capacity to set trade policy and negotiate trade agreements.

Results: BiH will adopt and implement international standards in all areas of the trade regimes. Impediments to trade-related investment measures will be removed. BiH exports will expand and the current account deficit will fall.

1.2 Improve Economic Policy and Governance

Problem: Small and medium-sized enterprises (SME) in BiH face serious constraints. They lack institutional support, and the business environment suffers from weak rule of law and poor contract enforcement. Serious administrative barriers hamper business registration, and regulatory practices obstruct legitimate business operations. High social contributions deter legal employment. These factors combine to create a large informal sector and obstruct the benefits of SME development for expanding the private sector, generating growth, and creating jobs. The non-observed economy undercuts the growth of SMEs by limiting their ability to set prices above costs and deprives the public sector of much-needed revenue.

Description: USAID programs will address a number of issues central to stimulating SME growth. They will improve tax policy and administration and help create a coherent property tax regime that supports investment and productive use of land. They will help improve rule of law in the commercial arena and facilitate bankruptcy proceedings, improve the enforcement and execution of judgments with regard to property rights, and create an alternative dispute resolution (ADR) mechanism for commercial and labor disputes. Support will be provided to increase labor mobility by modernizing the complex, command-oriented structure of labor regulations. It will also help streamline operational systems of tax administration and social contribution agencies so as to improve labor compliance and regulation enforcement. They will also strengthen the BiH audit functions to improve and safeguard the integrity of government operations and their relationships with the private sector.

Results: There will be a tangible reduction in the size of the non-observed economy. BiH will reduce, simplify, and harmonize the overall tax burden on businesses by supporting the implementation of a coherent system of direct taxation that will, among other goals eliminate nuisance taxes. Improvements in commercial law, including the development of alternative dispute resolution mechanisms, will reduce court backlogs and facilitate investment. The high cost of labor registration will be reduced.

1.3 Improve Private Sector Growth

Problem: The private sector's share of GDP in BiH, at about 50 percent, is the lowest among the transition countries in the region. It is 65 percent in Serbia and Montenegro, 67 percent in Slovenia, 68 percent in Croatia, and 71 percent in Bulgaria. Growth, and even survival, are limited in many market segments, especially in such areas as agro-industry, where regional markets determine domestic prices, leaving formal producers little pricing flexibility. BiH firms are limited in their ability to compete internationally and domestically with foreign firms. Business management methods that operate within a market economy were neither systematically taught nor practiced in the former Yugoslavia. BiH higher education systems do not focus on teaching concepts and techniques of modern market economics, entrepreneurship and management sciences such as marketing, corporate finances,

organization and accounting. Business management education is a critical component in developing leadership skills in today's global economy.

It is difficult to start a business in BiH, and operations are impeded by regulations. The large non-observed economy is a direct result of the administrative and regulatory burdens and high social contribution requirements, generated by government. Permits and inspections are among the greatest constraints to entry and successful operation of SMEs. They are also a font of corruption and abuse of power. BiH is reported to have the most burdensome licensing, permit and inspection regime in the region.⁹ Many of the problems arise from a lack of transparency and accountability in these processes, in part because of confusing rules and overlapping jurisdictions.

Description: USAID will address each of the problem areas. First, support will be provided to improve the competitiveness of three critical industry sectors that have the potential to generate export earnings: agriculture, wood processing, and tourism. The general approach will be to take a broad look at the sector examining all the major constraints affecting performance and particularly emphasizing policy reform to ensure that improvements are sustainable. USAID will foster vertical and horizontal integration so that SMEs will be able to compete more effectively and take advantage of liberalized trade regimes to generate jobs and reduce the trade deficit. Secondly, technical assistance will be provided to help reduce the time needed for business registrations and eliminate or rationalize nuisance permits and inspections that add costs to business operations. Finally, USAID will enter into new Development Credit Authority (DCA) agreements with BiH financial institutions to lower their risk in making commercial loans for investment and working capital. By promoting more accessible loan products to private enterprises, this will increase bank lending to enterprises and thus support sustained growth and employment.

Results: Private sector business will expand and grow and will generate increased employment. Output and exports will increase in the targeted sectors. New business activity will be increased as costs of starting, registering and operating a business decrease. Commercial lending to SMEs will increase.

1.4 Expand and Improve Access to Economic and Social Infrastructure

Problem: The organizational structure and function of public utilities are neither transparent nor cost effective. This facilitates graft and corruption and allows funds to be diverted for political purposes. Utility costs are high and have a negative impact on businesses and consumers. State-owned, vertically integrated energy companies need to be restructured and ultimately converted to joint stock companies. A system to regulate them needs to be established so that they operate according to accepted western technical and managerial standards.

The level of internet usage in BiH is extremely low, and support mechanisms to enhance the ability of SMEs to utilize the internet in all phases of their operations are almost non-existent. There are no effective links among universities to enhance the use of information and communications technology (ICT) and few between universities and business. For BiH to be able to sustain innovation and growth, the IT sector will have to be vitalized.

Description: USAID's support is aligned with the international community's goal of establishing a Southeast Europe Regional Energy Market that will operate under a regulatory regime that follows EU standards. Assistance will be provided to help create a single BiH energy market that is fully integrated

⁹ *Doing Business in 2005 - - Removing Obstacles to Growth* World Bank, IFC, and Oxford U. Press. 2005.

into the regional market and provides services at a regulated cost that promotes economic growth and allows for maintenance and expansion. USAID will work in close cooperation with the World Bank and the EC, concentrating on strengthening the State Energy Regulatory Commission by expanding its scope from just electricity to include gas and coal. It will also help to unify the existing state and entity regulatory commissions into one State Regulatory Commission that will regulate generation, transmission and distribution of each energy source. USAID will examine options for developing pilot ICT innovations in order to provide practical links to aid in business development, particularly for SMEs. This program will look to develop partnerships with local and American firms to supply expertise and support for introducing appropriate hardware and software.

Results: The major results in the energy sector will be: (1) adoption of State Gas laws and amended State electricity laws on regulation; (2) development of an operational, independent State Regulator with institutional competence and legal authority; and (3) restructured electricity and gas sectors that meet EU accession requirements. ICT links will be established for the development and provision of innovative inputs to enhance the productivity and operational effectiveness of private sector businesses.

1.5 Increase Agricultural Sector Competitiveness

Problem: BiH agriculture is not competitive. Agricultural products account for about 5 percent of exports while food products make up 20 percent of imports. A range of systemic problems inhibit the growth of agricultural enterprises. Generally, the poor linkages among the various players in the product marketing chain reduce effectiveness and ability to grow and sell. In addition, the lack of suitable financing is a serious impediment, as is the institutional inability to certify agricultural products to meet EU export requirements.

Description: This program will build upon the advances already made in assisting the agricultural market chain. This will be completed by strengthening the capacity of local institutions, such as extension and certifying services, cooperatives and business associations. In addition to strengthening these organizations and helping to improve agribusiness access to financing, an array of essential support services will be provided that will further increase agricultural productivity.

Results: Improved services will be provided by agricultural institutions and extension services. Increased sales of value-added products both in the domestic and foreign markets will be realized. The ratio of agricultural exports to agricultural imports will increase.

A More Participatory, Inclusive Democratic Society (Strategic Objective 2.1)

Problem: The governance structure in Bosnia-Herzegovina is too inefficient to provide the basis for entry to the EU. A redistribution of responsibilities among levels of government is needed to provide more accountability and efficiency. The State is weak, but progress has been made. Efforts to strengthen state-level institutions have resulted in the creation of the Ministry of Defense, the intelligence service and the Indirect Tax Administration. The authorities and responsibilities of local governments need to be expanded and clarified; municipalities currently barely have the resources to provide even basic services. Municipal responsibilities are often “shared” with higher level governments, meaning in practice no one level of government or bureaucratic unit is accountable, leaving citizens with no clear path for redress. Efforts to effect structural reform have just begun to gain momentum as developments within the country and within the IC now allow space for a post-Dayton pragmatism to develop.

Adding to problems of accountability within a largely dysfunctional system of governance is the disarticulated nature of feedback mechanisms. Media organizations, civil society, and political parties all have a role to play in arbitrating public policy questions and the role of the state. Actors in each of these areas face a unique set of challenges, but share in common a relative passivity and the need for further professional development. There is also widespread cynicism among citizens about the transparency and efficacy of Bosnian rule of law. Most overarching strategy questions have been resolved, but substantial implementation problems remain. The Bosnian court system needs to come to grips with its case-load backlog, its ability to implement judgments, and levels of professional capacity.

Statement: This objective aims to ensure that BiH citizens are actively participating in political, social and economic decision-making. It helps media outlets provide fair and true accounts of events. It strives to develop a legal system with access to justice for all citizens, and a government that is responsive, transparent and accountable.

Results: USAID will assist the government to reduce costs, particularly with regard to the middle layer of bureaucracy. The functions of government at both ends of the governmental system – the State level and municipal government – would be strengthened. Transparent and accountable budget and management systems would be put in place and, as services and effectiveness of government expanded over the life of the strategy, citizen trust in government institutions will rise. The rule of law will be strengthened and improved, providing better access to justice for average citizens and organizations. Citizens will be better informed by non-governmental organizations and the media on current issues facing BiH, and will be engaging more effectively and frequently in decision-making processes at the local, intermediate, and state levels of government.

2.0 Democracy Components

Based on the challenges and issues in the democracy sub-sectors, the following program components have been identified as general areas of support. Additionally, some of the key issues surrounding each sub-sector have been identified.

2.1 Improve justice sector and legal framework, and promote and protect human rights and equal access to justice

Problem: The High Judicial and Prosecutorial Council, which was set up in 2002, has started to play a leading role in reforming the justice sector. While the reforms are far from complete, they appear to be setting the stage for a transformation of key areas of the justice system. Some remaining key issues that hinder legal and judicial reform are inconsistency in the application of law, weak institutional capacity of key government agencies and departments, inefficient court systems, lack of enforcement of judgments, corruption, and lack of quality legal representation.

Description: USAID will improve the functioning of rule of law within BiH by assisting the state level institutions responsible for judicial and legal reform. It is vital that efforts be undertaken to “indigenize” capacity building so that BiH can move away from its current reliance on international personnel and organizations for the administration of justice. USAID will continue to target improvements in the efficiency, transparency, and fairness of BiH’s justice system by providing training and technical assistance to key judicial institutions, improving court administrative procedures, and ensuring fair and equal access to justice.

Results: Key state level institutions will have the ability to effectively and efficiently develop, coordinate and administer justice sector policies and responsibilities. Key aspects of court operations

will be improved as will the flow of cases within the system. All BiH citizens will have greater access to justice.

2.2 Support democratic local government and decentralization

Problem: Service provision at the municipal level is generally poor because of both poor local management and systemic constraints on local governments. Local governments are almost universally overstaffed and under-funded; service provision becomes an after-thought rather than a principal concern. The BiH governance system, with its failure to rationalize and coordinate its many layers, makes identifying responsibility difficult and accountability non-existent. Public revenues tend to be diminished and diverted away from municipalities by higher level government entities. As a result, municipalities, in addition to lacking capability, do not have either the financing or in many cases clear responsibility for basic service provision.

Description: USAID programs will seek to make local governments more efficient, accountable, and better able to promote local economic development by dramatically improving customer service provision, modernizing budget and finance methods, and encouraging public-private partnerships. Efforts will also focus on improving the overall governance financing system by helping to clarify government service responsibilities and financial flows to local governments. Local governments in both entities are increasingly realizing that they share similar problems that can best be addressed by working together. Developing ways for municipalities to work together will demonstrate ways to cooperate and to share power between ethnic groups.

Results: Local government will increase its effectiveness, and the percentage of total government revenue going to municipalities will increase. Specific systems for indirect tax allocation will be developed to favor the expansion of municipal services.

2.3 Strengthen national governance institutions and support democratic political parties

Problem: The legislative development process in BiH is still at a fairly primitive state, at least with respect to European standards. Parliamentary institutions lack sufficient accountability and responsibility. Interested stakeholders are not included in the discussion process, and little effective policy analysis is being done before drafting or proposing new legislation. The political system is characterized by a general absence of a strong, coherent opposition. The support USAID has given to political parties has achieved some results, but more needs to be done to effectively channel political party efforts to improve parliamentary performance and effectiveness. Currently, the local electorate looks to the international community to push reform and to the nationalist parties to protect their ethnic interests. In many practical aspects BiH behaves like an international protectorate, with the OHR serving as the ultimate governing authority. While OHR has driven the reform process, the continuing international presence has allowed politicians to avoid responsibility and accountability for making tough decisions. This lack of ownership has led to delays in implementing reforms.

Description: During the strategy period, the international oversight of BiH will end and domestic actors will become ultimately responsible for the direction, and thus success or failure, of their country. Therefore an increased emphasis will be placed on improving the legislature's representation, lawmaking and oversight capabilities as well as strengthening its infrastructure and management so that it can carry out its responsibilities more efficiently.

USAID 's support for the general development of democratic political parties has enabled them to build relatively comprehensive organizational coverage across the country. Their members are major players in parliament and in the councils of ministers at all levels. USAID's focus will be on building effective coalitions, promoting issue-based politics, and helping elected party members engage in constituency outreach.

Results: Political parties will develop a stronger vision of BiH's future and represent the needs of BiH citizens. Parliament will become increasingly important and effective, and will engage policy analysis to draft new legislation. The parliament will increasingly be the instigator of reform, and will assume ownership for EU accession as authority transitions away from the OHR.

2.4 Strengthen civil society

Problem: BiH has a large number of civil society organizations, which are principally funded by the international community.¹⁰ Their dependence on donor funding oftentimes drives their organizational mission and their programs. More effort is needed to improve the public's awareness and understanding of the value and important role this third sector plays in an inclusive, democratic society. Deficiencies remain in tax and fiscal policies that would normally cultivate domestic sources of funding for civil society organizations. The relationship among civil society, government and the private sector is still in the developmental stage and requires additional attention. There is a need to develop coalitions within and outside of the civil society community. While a number of issues continue to plague civil society organizations, USAID's assistance has helped organizations in the sector improve their advocacy skills as evidenced by improvements in the NGO sustainability index for BiH. NGOs now make use of a variety of forums to advocate for change. For example, NGOs use public hearings, meetings, and written correspondence with government officials to highlight specific social, political, and economic reforms.

Description: USAID will support local civil society organizations by providing training, technical assistance and small grants. The support will include assistance in evaluating performance and assessing needs so that future programming can be better developed and targeted. The focus will be to improve the effectiveness of NGOs by building coalitions to strengthen their overall effectiveness. The programs will emphasize support for advocating key policies and assistance for watchdog activities that monitor government operations. NGOs will be strengthened to help assess the effectiveness of the implementation of the BiH Medium Term Development Strategy. USAID will also increase the capacities of local organizations to conduct research and provide credible policy analyses to executive and legislative bodies.

Results: BiH scores on the NGO sustainability index will increase considerably. Marked improvements will be seen in the areas of organizational capacity, public image and the legal environment. The overall sustainability and effectiveness of civil society groups will be enhanced. Civil society organizations will play an increasingly stronger role both in advocating for critical reform measures and in carrying out important watchdog functions to ensure adequate accountability of government at all levels.

2.5 Establish and ensure media freedom and freedom of information

¹⁰ UNDP estimates there are 1,500 – 2,000 NGOs in BiH. See *Nations in Transit 2005*, Freedom House

Problem: USAID has supported the development of the independent media since the early days of its program in BiH. Its intervention was stimulated by the particularly pernicious role played by the media in inflaming ethnic hatreds before and during the war. USAID has provided training and technical assistance to commercial print and broadcast media. It has helped private media outlets in the areas of business development, legal and regulatory frameworks, local production, and journalistic quality. While USAID has focused on the private commercial media, the European Commission has focused on BiH's public broadcasting system. The EC's work has centered on providing legislative drafting assistance on public broadcasting laws and restructuring the public broadcast system. Unfortunately, commercial media continue to suffer from poor professionalism and weak ethical standards. Moreover, media outlets in BiH are still struggling to become financially self-sustaining. One particularly disturbing downward trend is that reporting seems to be taking on more of a nationalistic tone.

Description: Under an existing program, independent media outlets will receive training and technical assistance with a focus on sophisticated business practices, advanced production techniques and objective reporting. Support will also continue to develop an independent media and combat corruption. Support for media will phase out during this strategy period.

Results: Key elements of independent media and free information are in place.

Program Support Crosscutting (Strategic Objective 4.2)

Statement: The Program Support objective focuses on the operations and personnel costs of program staff, monitoring and evaluation of programs, and developing public-private partnerships in conjunction with new program designs. In addition, this cross-cutting objective supports the training needs of the Mission's other strategic objectives through a Participant Training Program. It also manages programs to develop systems to protect "children at risk," combat trafficking in persons, and develop environmental protection.

Reduce Trafficking in Persons

Problem: Recently BiH was in danger of becoming ineligible for non-humanitarian US Government assistance because of its failure to adequately fight trafficking in persons (TIP). In 2005, BiH achieved an acceptable Tier 2 rating. Despite some progress, TIP in BiH continues to be a difficult problem. To advance further, BiH needs a comprehensive coordinated approach combining efforts to bring traffickers to justice and to strengthen social support systems to protect victims. BiH has developed a National Plan of Action and a State Coordinators Office for Trafficking in Persons has been established. Local anti-trafficking efforts need financial support and technical assistance to help ensure their success.

Description: Activities will help to strengthen the capacity of BiH's Government to combat trafficking in persons and to implement the country's National Action Plan. In close cooperation with the Swedish Assistance Program (Sida), USAID will support local efforts to improve legal advocacy for victims of trafficking, strengthen victim and witness protection, support sustainable victim assistance, empower vulnerable populations, and promote public education and raise awareness. In all aspects of implementation, USAID and its implementing partners will ensure gender sensitivity, specifically when it comes to care for victims of trafficking and efforts to strengthen NGOs and other institutions.

Results: Government capacity to implement the National Action Plan to Combat Trafficking in Persons

will be strengthened. Victims will be informed of their rights, and protections will be in place to protect victims reform being traumatized again. At-risk populations will have an increased awareness, as well as demonstrably changed attitudes and behavior. Cooperation and continuity in work between government and non-government actors will be strengthened. The overarching goal is to help ensure at a minimum that BiH remains a Tier 2 country; preferably, it would progress to Tier 1. Performance of activities to combat TIP will be explicitly reported in the Mission annual report including whatever they contribute to each strategic objective in BiH.

ANNEXES

ANNEX 1: Conflict Resolution Assessment – Executive Summary

ANNEX 2: Gender Assessment – Executive Summary

ANNEX 3: Bio-Diversity Assessment – Executive Summary

ANNEX 4: Environmental Program

ANNEX 5: List of USAID/BiH Assessments Undertaken (available on request)

ANNEX 6: EU Feasibility Study 16 Critical Points

ANNEX 7: Medium Term Development Plan Priority Areas for Attainment of (PRSP) Goals

ANNEX 1

Conflict Resolution Assessment – Executive Summary

Drawing on extensive, in-depth interviews with a wide array of indigenous and outside experts and on a wealth of reports, books and official documents, the Assessment Team found that Bosnia and Herzegovina presents a complicated and decidedly mixed picture from the standpoint of the prospects of renewed, widespread conflict that could derail the country's tentative but notable progress in the decade since the end of hostilities.

On the one hand, the combination of a huge presence of the international community, manifested most significantly in thousands of well-armed peacekeepers and an imperfect but useful peace accord that yielded a sufficiently stable political outcome, and changing political calculations in neighboring Serbia and Croatia has translated into a very low risk of large-scale violence. Most BiH citizens are focused on improving their economic circumstances and see little to be gained from a resumption of armed conflict. There is growing skepticism about political and religious leaders that use language calculated to widen divisions between the main ethnic groups and who portray themselves as crucial to safeguarding their community's wellbeing. Recently, nationalist political parties have suffered some setback at the polls with the election of mayors from more moderate parties, giving cause for hope that the stranglehold of radical elements in the three main ethnic communities may be waning.

On the other hand, BiH must contend with the cleavages that led to the conflict and their exacerbation by the violence which has left a constellation of political, economic and social-psychological conditions strongly correlated with violent conflict in many countries around the world. Ethnic and religious differences persist and combine with deep-seated, war-spawned grievances. The Dayton Accords all but codified the tripartite division of the country along ethnic lines and provided for a governing structure that is neither affordable nor politically sustainable. Nationalist political parties representing Croat, Serb and Bosniak communities along with calculatingly provocative individual leaders continue to command the support of a large majority of their respective ethnic groups. Young people are increasingly alienated from politics while a weak economy has produced a large number of marginalized young men who may be particularly vulnerable to recruitment to violence. And as a society, BiH has failed to confront the past, allowing old wounds to fester while giving little thought to truth telling, transitional justice and ultimately, inter-communal reconciliation.

The team employed the conflict assessment framework developed by the Office of Conflict Management and Mitigation to identify and analyze the dynamics shaping BiH, make judgments about the likelihood of political violence, and offer a set of programmatic recommendations to reduce further the risk of conflict. The framework helps identify the factors discussed above and how they interact – how the grievances and opportunities to use violence combine with disincentives to conflict, the ways actors and organizations have an interest in using conflict or inhibiting violence, how the institutions of the state and society facilitate the resolution of grievances and deter violence or instead enable conflict, and the ways the international community, neighboring states, and diaspora populations affect these conflict risks and peace building possibilities.

Because the prospect of near-term, large-scale conflict in BiH is low, the report necessarily adopts a more speculative line of analysis examining factors and conditions that left unaddressed make the country vulnerable to widespread political violence over the long-term and which could spawn localized violence (with the possibility of escalation) at present. The conditions that leave Bosnia at risk of conflict – divided society and nascent state – are also serious impediments to the development of a prosperous, market-based democracy.

Key Findings and Conclusions

- **With substantial assistance from the international community, BiH has made significant progress towards political and socio-economic stability since the end of a devastating war.** The Dayton Accords, while forged to bring a halt to the war, have provided a political structure for governing a divided society and young democracy. State level institutions are gaining more authority and capacity, the economy is recovering from the cataclysm of war, and increasing political competition within the nationalist political parties holds out hope for breaking their chokehold on political life. The reintegration of hundreds of thousands of refugees and IDPs with a minimum of violence is a tremendous accomplishment and lays the foundation for the main groups to co-exist without substantial concern about further conflict.
- **BiH has a low likelihood of large-scale conflict in the foreseeable future.** The robust presence of the international community, new thinking in neighboring countries, BiH citizens' desire for a better life, progress on addressing some of the conditions that drive conflict worldwide and were behind the past conflict, and widely held view that resort to force is not a viable option all help to reduce greatly the prospects for broad-based violence. Citizens are convinced that the involvement of the international community precludes a resumption of deadly conflict.
- **Possibility of local violence and the potential for escalation remain.** There is no reason for complacency as BiH continues to face a number of conditions and factors that are typically associated with a risk of violence. From deep-seated ethnic and religious cleavages and festering grievances among large segments of the population to widespread economic hardship/marginalization of risk prone groups such as young men and weak political institutions and poor governance at the national and local levels, it would not be difficult for some otherwise minor incident to trigger violence that could spread.
- **Main beneficiaries of the war still dominate BiH politics and economy.** Many of the leading conflict entrepreneurs who fuelled and benefited from the conflict of the 1990s remain in positions of political and economic power. While their interests may have changed such that they now covet stability and maintaining their privileged position, they remain a roadblock to enacting reforms that will promote the general welfare and processes of transitional justice. Their position among the elite makes a mockery of the rule of law and is a source of younger BiH citizens' cynicism and alienation vis-à-vis politics.
- **Failure to confront the past inhibits the country from moving forward and increases the possibility of violent conflict.** The inability and/or unwillingness of political and religious leaders and a large portion of the population to confront BiH's tumultuous recent past makes the society more susceptible to political violence and retards the creation of a robust, free-market democracy. BiH remains a deeply divided society. Cleavages exposed during the war have not been healed. Each of the main ethnic communities has its own narrative that stresses their suffering at the hands of others and ignores or exonerates atrocities carried out by its forces.
- **Absence of transitional justice likewise increases the risk of future violence.** Nothing is more symptomatic of the weak rule of law and of the failure of BiH society to come to terms with its painful past than the lack of accountability and justice for those who carried out atrocities. While some of the biggest culprits are targets of the Hague Tribunal, those that perpetrated smaller but no less heinous crimes continue to live and work as respected members of their communities – an unbearable daily reminder to victims' families and a possible flashpoint for local level violence under the right circumstances. There can be no reliable peace in BiH without an accounting of the past and a process of justice and reconciliation that it can set in motion.

- **Economic advancement will reduce but not eliminate the risk of conflict.** Poverty and inequality are strong conflict drivers. Improvement in material circumstances for the bulk of the BiH population can reduce the potential for violent conflict by generating more opportunities and hope for marginalized citizens who may be particularly prone to engage in violence and by dampening social tensions more broadly. But poverty by itself is not a sufficient condition for widespread violence. To reduce the risk of violence to low levels, a society must address other cleavages and sources of grievance, which in BiH are not economic.
- **Present political arrangements are not a long-term solution to the challenges of stability in a multi-ethnic society.** The Dayton Accords terminated hostilities but are an unwieldy and prohibitively expensive institutional framework ill suited for effective governance. The dilemma faced by the international community and reform-minded BiH citizens is that tampering with the present structure risks conflict with Serbs who regard the Republika Srpska as the paramount achievement of the war and Croats who see tampering with the canton system in the Federation consigning them to second class status in the Bosniak-dominated entity. The slow pace in erecting effective national level governing institutions also pushes into the distance possible programs that attack more directly the root causes of violent conflict.
- **The groups most prone to violent conflict are not the focus of programmatic attention.** The most at-risk groups, which include urban, economically and politically marginalized young men, are not a major focus of donor programs. Failure to appreciate the potentially toxic mix of disaffected and angry young men and irresponsible political and religious leaders who could recruit them to violence is a serious problem. Moreover, donor-supported efforts at inter-communal dialogue generally involve those already committed to reconciliation and bypass or ignore key groups or individuals who pose the most danger to peace and stability.
- **Civil society's capacity to address conflict issues is limited.** Some the leading CSOs involved in various aspects of conflict prevention and mitigation work have received funding from donors but they have not had a substantial impact either in raising awareness about the risks of political violence or in influencing the choices of policymakers. Organizations that carry out activities confronting the past, transitional justice and reconciliation face formidable obstacles. Their task is made harder still by inadequate coordination and collaboration on issues/policies of common concern. Links between national and local groups are weak. Even some of the more developed CSOs do not have the advanced skills necessary to engage directly in conflict-related work.
- **Absence of a shared vision about the country's future.** A decade after the end of the conflict, there is no consensus about the future direction of the country other than citizens wanting better economic conditions, which for many translates into closer integration with Euro-Atlantic structures. Only a modest percentage of the population seem committed to a genuinely multi-ethnic society in which different minority groups live and work side by side. Likewise, support for democracy, at least as BiH citizens have come to understand it, is not especially high. The lack of agreement on pivotal issues about the recent past inhibits the development of a consensus about the society and state.
- **Growing inter-ethnic political competition is reducing the potential for violent conflict.** Increasing political competition within the three main ethnic communities is breaking the monopoly on power of nationalist political parties, whose leaders have consciously sought to sustain inter-ethnic tensions so as to maintain their positions of authority. There is reason to believe that younger voters are increasingly disgusted with the divisive stance and poor performance of the party leaderships and could be mobilized around a positive program for reform and economic and political renewal. While increased political competition in many countries within communities leads some parties to increasingly extremist positions, this tendency to date appears weak in BiH.

- **Different political calculations in Belgrade and Zagreb have changed the conflict equation.**
Decision makers in Serbia and Croatia still want to influence political developments inside BiH but in a radical departure from the dynamics that drove the war, they do not see their interests served by hard-line nationalist stances by ethnic compatriots in Bosnia or internecine conflict. The Serbian and Croatian governments increasingly see their fate linked to accession to the European Union and are very unlikely to do anything to damage those prospects, though admittedly they have been less than fully cooperative with the War Crimes Tribunal in the Hague.

ANNEX 2

Gender assessment: Executive Summary

Developing a new country strategy requires that USAID Missions undertake a gender assessment. The Automated Directive System (ADS) states, “Analytical work performed in the planning and development of SOs and IRs must address at least two questions: (1) how will gender relations affect the achievement of sustainable results; and (2) how will proposed results affect the relative status of men and women. Addressing these questions involves taking into account not only the different roles of men and women, but also the relationship and balance between them and the institutional structures that support them”

In preparing its new strategy, USAID/Bosnia requested a gender assessment. The assessment was carried out during two weeks in January and February 2005. It was based on a review of background materials, meetings with Mission staff, relevant donors, implementing partners and NGOs active in the area of gender equality. This report presents the findings of the assessment and includes key recommendations for the Mission to undertake to strengthen its gender mainstreaming efforts. The goal of the assessment is to outline key gender issues and constraints in Bosnia and Herzegovina to be addressed through existing or planned programming.

The politicization of women’s groups during the war and the prospect of EU integration have prompted significant advances towards gender equity in Bosnia and Herzegovina. The new Gender Equity Legislation and the extensive new gender machinery to implement it are among the most progressive gender mainstreaming bodies in all of Europe. The prospect of EU enlargement and the high visibility given to trafficking in persons, along with the naming of gender equality as one of three Millennium Development Goals have also helped to focus the attention of the donor community to promoting gender equality in Bosnia and Herzegovina. The moment is therefore ripe for promoting gender equality, and with few changes in its programming, USAID/Bosnia can play a dynamic role in this process.

There is consensus in identifying the key gender constraints in Bosnia and Herzegovina.¹ While poverty is a constraint inhibiting both men and women, women are constrained by their low levels of participation in political and economic decision-making, weak participation in the labor market, and their lack of access to the legal system, in general, and to protection of property rights, in particular. The structures for enforcing the new Gender Equity Law are not yet functioning effectively.

Key Gender Constraints

- Women’s low levels of participation in political and economic decision-making;
- Lack of implementation and enforcement of Gender Equity Law;
- Women’s low levels of labor force participation;

This report identifies a number of ways the Mission can address these constraints by making slight and “doable” adjustments in its programming; these recommendations are listed in Section IV of the report. In addition, the report outlines areas where the Mission might consider developing new programs to better address these constraints in its revised strategy.

Major Programming Recommendations

- Develop the institutional capacity of political parties to promote gender equity and move women to higher positions on the party lists;
- Develop the leadership skills of women both within and outside the parties;
- Work with electoral commissions to ensure compliance with Gender Equity Law;
- Train legal professionals in gender equity legislation;
- Promote legal rights awareness of Gender Equity Law;
- Conduct gender analysis of the Labor Market Survey currently underway.

The Mission shows a keen awareness of gender considerations and has made obvious efforts to enable an equitable gender balance in its programming. The Mission, however, lacks information about tools for gender mainstreaming and is not always able to document and highlight the good work on promoting gender equality it has already done. Inadequate sex-disaggregated data, for example, makes it difficult to document the numbers of women already participating in, or benefiting from Mission programs.

Recommended Actions for Institutional Gender Mainstreaming

- 1) Professionalize and expand the position of the Gender Focal Point In addition to assisting in technical review panels, the Gender Focal Point could:
 - Assist or serve as a technical resource in the program planning phase to develop programs that ensure a gender balance in terms of benefits and to ensure that Mission programs and activities are in compliance with the existing gender law.
 - Develop the language in the pre-obligation requirements that could make constructive use of the ADS process to gender mainstream.
 - Assist in developing the activity approval documents in accordance with ADS guidance.
 - Assist in developing gender-sensitive indicators.
 - Support the position of the Representative for Gender Issues (see below).
- 2) Train CTOs in gender analysis and gender mainstreaming
- 3) Make use of resources available through the WID IQC
- 4) Provide training in gender analysis and gender mainstreaming for prospective partners

Gender mainstreaming as indicated goes well beyond ensuring that women and men participate equally in development programming. Gender mainstreaming demands that gender considerations be built into each step of the programming process-- from program design to assessing program outcomes. Successful gender mainstreaming therefore requires knowledge and expertise of the “when, where and how” to meaningfully address gender considerations at each point of intervention. While the ADS process outlines specific interventions to promote gender mainstreaming, the success of enterprise will ultimately depend on the knowledge and willingness of the Mission staff to consider gender within a broader program and institutional context. To this end, the final section of this report outlines ways the Mission can make more effective use of the ADS process to mainstream gender throughout its programming and initiatives. The recommendations are intended to provide a broad menu of options from which the Mission can select to improve its gender mainstreaming efforts.

ANNEX 3

Executive Summary Bio-Diversity

The USAID Mission to Bosnia and Herzegovina (BiH) commissioned this study to help it formulate its strategic framework over the next year. A three-person team was fielded for two weeks as part of the Biodiversity Conservation and Sustainable Forestry contract (BIOFOR) to

(a) assess current biodiversity in BiH; (b) identify the most immediate threats to biodiversity; (c) identify actions to address current conditions and threats; and (d) determine how USAID programming affects conservation of biodiversity in BiH. The team, which consisted of a resident biodiversity expert, an environmental planner, and a natural resources management specialist, conducted interviews, did field studies, and reviewed the literature to arrive at its findings.

Status of Biodiversity

Because BiH anchors much of the biological diversity of the entire Balkan peninsula, it has a pivotal role in the environmental health of the region. It appears that BiH is one of the five European countries most rich in species, but about 19 percent of the plant species in BiH are thought to be under significant threat from land conversion, unsustainable forest management, and exposure to pollutants. Thus, while BiH is an important center of biodiversity for the region, it has the highest proportion of threatened species of any country in Europe. Yet less than 1 percent of the land in BiH has been set aside in protected areas, and these are neither adequately organized nor financially solvent.

The protected area situation is one symptom of the legislative and jurisdictional confusion that prevails. The situation is improving somewhat: Promising new framework laws for the environment have been enacted, though they still lack implementing details. Ability to enforce environmental laws and encourage more rational decision making about land use remains constrained by the limited capacity of government at several levels. Civil society organizations in BiH are only now beginning to coalesce around conservation issues.

Threats to Biodiversity

Threats to biodiversity fall into two general categories: (1) widespread intractable threats inextricably linked to post conflict economics; and (2) more immediate threats that have more measurable impacts but may also have medium-term solutions. Among the macro threats are a weak economy that forces mining of otherwise renewable natural resources; limited public awareness of mechanisms to improve resource conservation; lack of a coherent legislative framework and of substantial regulatory capacity; and policy and market failures that substantially undervalue environmental goods and services.

The urgency of the situation after the war required the entire development community to artificially stimulate employment and push income growth through outright subsidies for private as well as public enterprises. Many of these subsidies were underwritten by discounting natural resource assets: low prices for industrial water and energy encouraged waste; below-cost logs to wood manufacturers discouraged sustainable management; and low prices for agricultural land favored conversion to commercial and residential use.

Such widespread and systemic undervaluation represents perhaps the largest threat to biodiversity. It is a significant barrier to the investments in management that are desperately needed to make BiH agriculture and forest-based products competitive within regional and European markets. The cumulative effect of: undervaluation of natural resources; policy failure from inadequate environmental legislation and implementing policy; and inherent institutional limitations of a post-conflict situation compromise the ability of BiH to compete within current markets. The absence of a national conservation strategy, a coherent protected area network, and guidelines for sustainable management of renewable resources will limit Bosnia's ability to deliver competitive forestry, agriculture, and tourism products.

Actions Necessary to Conserve Biodiversity

A transition from humanitarian assistance to market-led economic growth is now necessary to create the conditions for rational use of the natural resources upon which most citizens of BiH depend. All production systems must begin to reflect fair market values for all production factors, including clean water, air, and sustainability managed forests. At this time, while governmental policy and capacity are slowly improving, all efforts should be made to encourage improved management and stewardship of agriculture, forestry, and tourism in BiH. There are a number of ways this can be done.

Harness Value Chain Capacity for Environmental Competitiveness. As increasing numbers of agriculture and forest enterprises are stimulated, there is a unique and historical opportunity to harness the power of the private sector to foster sustainable stewardship of land. The broad private supply chain initiatives that now use auditable standards of environmental, health and safety, and social performance in the food and wood products industries are powerful tools to promote incorporation of conservation and biodiversity values into export-oriented activities.

Build Networks of National, Entity and Local Environmental NGOs. Sustaining and expanding on NGO-related programs are vital if NGOs are to become key players in conservation of biological diversity. Programs are needed that enhance NGO financial sustainability, improve internal management and strategic planning, educate members, improve access to information, and strengthen linkages between NGOs and government decision makers.

Implement Environmental Education Curricula at all Levels. Improving environmental awareness is essential if BiH is to conserve its biodiversity, improve transparency, and enforce the rule of law related to the environment. Yet there is no systematic effort being made today in BiH to introduce interdisciplinary environmental education into the educational curriculum at any level.

Increase Institutional and Technical Capacity in Land Use/Spatial Planning. A comprehensive effort is needed in each entity to restructure land use planning, including planning for conservation of high-value natural resources and biodiversity-rich areas that are increasingly being lost to unregulated development.

Improve the Treatment of Municipal and Industrial Wastewater. Clean water is crucial to improving the market basis for conservation. Regulatory and financial mechanisms are needed to motivate private-sector compliance with new water quality laws and standards now being formulated. Private companies are not yet fully informed about pollution prevention, clean production, and environmental management approaches to reducing wastewater and pollutant loads in an economically practical way.

Develop a Comprehensive Protected Areas Management System. Designing and implementing a comprehensive national conservation strategy and setting up a protected areas system are critical to conserving biodiversity in the long run. It is important to move immediately to begin this process.

Establish a Conservation Data Center. Identifying and tracking stress on biological systems across all elements of the landscape – alpine, forest, agriculture, and estuarine – will help decision makers apply their scarce resources to areas that have high conservation value, clarify anthropogenic disturbances, and allow authorities and NGOs to protect threatened and endangered species.

The Role of USAID Programs in Addressing Conservation

Most of USAID's declining resources are directed to three strategic areas of intervention: economic transformation to more market-based enterprises and more fiscally responsible government; democratic reforms that encourage formation of civil society and increase transparency in political and legal systems; and facilitating the return of minorities to their communities by installing basic services and urban infrastructure.

At present USAID has no current or anticipated activities aimed specifically at biodiversity conservation or broader environmental management, but many of its other activities have environmental ramifications. Aspects of several current economic transformation activities – agriculture, forestry, tourism – can be expected to enhance land stewardship, which will have biodiversity benefits. The democratic reform initiatives to strengthen civil society, especially NGOs, and local government capacity to make more informed decisions about land use and waste management will help build grassroots appreciation for environmental values. Activities supporting the return of displaced minorities not only help to build livable communities but significantly improve water and energy utilities in ways that will ultimately improve natural resource valuation.

USAID activities in other areas – privatization of public enterprises, support for competitiveness clusters, improving the capacity of independent media, and strengthen municipal government – could be tweaked to reward better stewardship of natural resources.

Recommendations

In the spirit of Section 119 of the Foreign Assistance Act, the assessment team identified actions that could significantly improve conservation of biodiversity within the Mission's current and potential programming structure. The recommendations do not address all the actions needed to conserve Biodiversity but focus on those that may lie within the manageable interest of the different Strategic Objective teams. All were reviewed with the teams and most received a favorable response including:

Financial Sector Reform

Define guidelines and procedures for environmental risk review and train USAID partner Financial Institutions to bring environmental practices up to international standards; this will help divert USAID investments away from activities that could have severely adverse effects on natural resources and biodiversity.

Private Enterprise Development

Support independent and market-based certification of BiH forests/wood industry to standards applicable within current or prospective markets to improve both upstream and downstream conservation performance; this will improve access to and competitiveness in regional and international markets for forest products.

Privatization

Modify the privatization process as follows:

- Improve the quality of environmental liability disclosures in information memoranda.
- Make environmental performance criteria part of tender documents; this will define for bidders project expectations regarding environmental management.
- Raise the valuation of environment performance capability through explicit use of private value chain standards in bid documents.

Civil Society

Amplify NGO support to replicate local environmental action planning across municipalities and build two to three coalitions that can provide national recognition and leadership for such a process. Work to change tax laws to make tax-deductible contributions to NGOs from corporations and individuals. Collaborate with NGOs to publish primary school environmental curricula. Underwrite a national environmental education and awareness campaign.

Local Governance

Carefully observe trends in the use of independent certification systems for utilities (as in Croatia) and identify ways to facilitate ISO 14001 training and certification to improve internal management of municipal government and public utilities.

Institutional Strengthening

Help utilities install pilot water-quality management systems that use an integrated watershed approach with monitoring and information capacity that incorporates indicators for upland resource.

New Programs

Work with the state and entity governments and public interests to design a national protected areas strategy and implementation plan that will increase protection of high-value biodiversity; collaborate with the World Bank to enhance the success of the GEF-funded protected areas project scheduled to begin in 2004.

Establish a clearinghouse for quality, environmental management, and health and safety training and certification assistance – a “one-stop-shop” where private and public enterprises and others can access information, resources, and training on market-based standards and environmental management systems. The clearinghouse would support USAID programs in agriculture, forestry, tourism, and municipal infrastructure and management.

ANNEX 4

ENVIRONMENTAL SUPPORT FOR STRATEGIC OBJECTIVES 1.3 AND 2.1

I. Background: Throughout BiH, the state of environmental management is weak as is confirmed by poor use of natural resources, lack of protection of water resources, poor systems in place to deal with solid and liquid wastes, and generally high levels of pollution. The sustainability of long term BiH economic growth depends upon effectively incorporating environmental management concerns into economic and democratic strategies for development. Some significant strides have been made in the policy and institutional framework. Environmental laws at the entity level deal with water, protection of nature, air, waste management, and the establishment of a global fund for the environment. An adopted National Environmental Action Plan (NEAP) identifies key priority problems and areas of environmental management. A Solid Waste Management strategy has been adopted. An Environmental Steering Committee for coordinating and harmonizing policy across entities has been established. BiH now needs to integrate environmental management concerns more fully into development programs. Economic growth will increasingly depend upon addressing issues related to sound management of the resource base. Effective local government will increasingly be responsible for protecting local resources and providing services to keep communities clean and attractive.

To advance towards EU membership, BiH must demonstrate that it has capacity to meet the environmental protection obligations of member countries. The EU usually calls for all applicant countries not just to harmonize their legislation and institutions with EU, but also to integrate environment into all their policy areas. Some of the key issues countries need to consider when making national strategies are how to promote energy efficiency, clean technologies and waste reduction and how to guide tourism, agriculture and industrial production towards sustainable development and environmental protection.

II. Development Problem:

Environmental issues in BiH represent a significant deterrent to both economic growth and the provision of public services. Efforts to improve tourism, agriculture and forestry sectors, key areas of focus for the economic strategic objective, all are affected by environmental constraints. Access to water, the effective disposal of wastes, and the protection of local natural resources depend upon effective environmental management at the local level. Foreign and local businessmen looking to make investments to export to the EU member countries are deterred in BiH due to a lack of health and quality sanitary standards for agricultural, dairy and livestock products. Urban areas that could otherwise be tourist attractions are made less attractive due to the poor handling of waste and general lack of cleanliness and sanitation. Forestry, a key natural resource sector in the BiH, suffers from a lack of control and management provisions making the sector unattractive to potential international investors. The non-existence of efficient environmental management at the local level has translated into poor services for citizens and a generally deteriorating situation with regard to natural resources, which negatively affects health and welfare.

III. Expected Results from the Planned Activities:

- Improved performance of value added chains in the priority economic growth areas – energy, agriculture, tourism, and forestry.
- Increased NGO involvement in developing local environmental action plans.
- Enhanced public awareness of the importance of environmental concerns and community pollution.

- More strategic land use planning, management and development at the local level.
- Improved access to clean water and sanitary disposal of waste.

IV. Proposed Interventions:

The Mission will consider supporting key topical areas at the local level with municipalities and local firms. These tightly knit pilots will serve as models and incentives to other participants in the value added chain. Workshops would be developed to disseminate findings. The activities will demonstrate cost saving measures and enhance enterprise competitiveness and local public service provision. The interventions below comprise a menu of possibilities USAID will consider. The extent of the effort will be constrained by severely limited resources. The ability to integrate the environmental concerns into other components in economic growth and local governance will also determine which interventions may be implemented.

1) Improve Value Chains

- **Energy** – Support would be considered to help thermal plants identify corrective measures needed to produce environmentally acceptable electricity for export according to EU standards. A pilot would identify cost effective approaches for controlling pollution so as to meet EU regulations and for exploring the use of production waste products such as sand and ash from thermal power plants. This would support USAID’s efforts in restructuring the power sector by making it more attractive for foreign investments and eventual privatization.
- **Agriculture** – Assistance would be given for implementing sanitary and phyto-sanitary standards harmonized with EU standards for export. Other areas that would be explored would be the development of cost effective and environmentally sound practices such as bio-gas energy conversion using animal wastes and sewer sludge. The activity would be fully integrated with the Mission’s Linking Agricultural Markets to Producers Activity (LAMP).
- **Tourism** – A main weakness of the tourism sector is poor environmental conditions. USAID would work with selected municipalities and local environmental NGOs in potential tourist areas to develop models for cleaning the sites. During the recent visit of UNESCO Ambassadors to Mostar, officials were warned that the city could be denied a special designation as a heritage site because of the dirt and garbage dumps scattered throughout the city.* After Mostar was cleaned up, UNESCO designation was provided. Specially tailored environmental protection practices will be created for the selected locales to create better conditions for tourism development. This will be fully integrated with Cluster Competitiveness Activity (CCA) tourism development in Una-Sana Canton, Medugorje, and various locations throughout the country.
- **Forestry** – ISO standards to introduce quality and environmental management for wood exports are becoming increasingly critical for export to the EU market. In addition to meeting requirements for export, this activity will have positive impact on the local economy and the environment. Wood recovery programs reduce the amount of the recoverable wood going to landfills; they contribute to development of small and medium enterprises and technologies utilizing a variety of recoverable fibers and they expand the life of wood fiber supply. USAID will help improve the sustainability of interventions in forest conservation and use at field level and promoting farm forestry and other sustainable and socially equitable forms of land use which have a positive impact on forests. The activity would be fully integrated with CCA.

* “Dnevni Avaz” How Mostar Got Slapped, March 22, 2005; “ONASA” UNESCO Ambassadors Found Mostar Unacceptably Dirty, March 23, 2005; Mostar has now received the UNESCO designation.

2) Improve Municipal Environmental Planning

SIDA is assisting six of 143 municipalities in BiH to produce Local Environmental Action Plans (LEAP). This activity is implemented by the Regional Environmental Center (REC). USAID would complement SIDA's efforts in municipalities where other Mission programs are being implemented. This activity will enable the selected municipalities to provide additional services to become environmentally and business friendly, and to attract foreign investments.

Activities might include:

- Provide basic equipment and technical assistance for developing Local Environmental Action Plans (LEAPs). Special emphasis will be given to strengthening municipal environmental inspection services and introducing GIS. The activity would work with selected organizations in collaboration with the Governance Accountability Project (GAP).
- Assist municipal officials in spatial planning and land categorization with emphasis on the factors that cause land degradation, such as illegal construction, deforestation, and landfills. These land planning activities would complement planned efforts to improve local revenues through introduction of more systematic property taxation under USAID's private sector program. The activity would be fully integrated with GAP.
- Assist NGOs in helping local municipalities planning process through their cooperative involvement in identifying and mapping local critical natural resource areas. USAID would work with local stakeholders in selected municipalities and would help identify local concerns to include in LEAPs. Their actions would include assistance to identify municipal priorities and reduce degradation and pollution. This activity will be coordinated with the ongoing Sida effort. This activity will also help in building public-private partnerships. Assistance would be directed toward developing networks of NGOs working with local governmental decision makers. The activity would be fully integrated with GAP.

3) Improve the Treatment and Processing of Municipal Wastes

Efforts at the municipal level are needed to treat and recycle waste. It is estimated that annually there are between 2 and 3 million tons of solid waste produced in Bosnia and Herzegovina that are being dumped at over 1,100 illegal sites throughout the country. There is virtually no separation and recycling of solid waste. Activities would be fully integrated with GAP and might include:

- Assist municipalities in developing pilot projects for separation and recycling of the waste. Simple and low cost technologies are available to reduce health hazards and pollution and move BiH closer to EU standards for waste control.
- Support NGOs to develop systems to collect inorganic and organic wastes to improve the effectiveness of existing systems and would include recycling of organic waste into compost and recycling and reuse of sorted inorganic waste.

V. Links to Mission and other government/donor activities:

1) Mission Programs – The proposed activity will be supportive and complementary to efforts under both of the principal strategic objectives: SO 1.3 “Accelerated Development of Private Sector” and SO 2.1 “A more participatory, inclusive democratic society”.

- SO1.3 – The Cluster Competitiveness Activity (CCA) and The Agricultural Marketing Program (LAMP)
- SO2.1 – The Local Government Program (GAP) and the new Civil Society Assistance Program

2) Other Donor Activities

- World Bank supported the development of a National Environmental Action Plan (NEAP), which has been adopted by BiH, and an adopted Solid Waste Management Plan.
- EU PHARE and EU CARDS developed a Solid Waste Management Strategy
- JICA Study on Natural Resources, Agriculture and Tourism in BiH
- The Regional Environment Reconstruction Program for South Eastern Europe (REReP),
- The Italian Government, working through REC, and in coordination with the EU, has initiated the process for establishing a State level institution to deal with environmental issues.
- Stability Pact Program plus the Mediterranean and Danube basin plans under the auspices of the Mediterranean Action Plan (MAP).

3) BiH and FBiH / RS Governments

- BiH Government Medium Term Development Strategy
- Ministry of Agriculture, Water Management and Forestry, BiH. The MoAWF is responsible for the water strategy and policy, issuing of agreements and permits, setting of standards and regulations, and the monitoring compliance with the laws and regulations.
- The Ministry for Physical Planning and the Environment in FBiH
- Ministry for Urbanism, Construction, Communal Issues and Ecology in the RS is responsible for activities related to water and environmental protection

ANNEX 5

LIST OF USAID ASSESSMENTS UNDERTAKEN

Accelerated Private Sector Development (Strategic Objective 1.3)

- 1) Una-Sana Canton Forestry Assessment
- 2) Inspection, Permits and Licensing Assessment; November 2004
- 3) IT Sector Assessment; July 2005
- 4) Unlocking Capital for Development (Mobilizing Capital for SME); June 2004
- 5) Labor Market Assessment; May 2005
- 6) Actuarial School Program Assessment; May 2004
- 7) Toward an SME - Friendly Revenue System; March 2004
- 8) Deposit Insurance Financial Viability Assessment; March 2004
- 9) Institutional Analysis of the Forest Sector of Republika Srpska; February 2004
- 10) BiH Tourism Investment; January 2004
- 11) Insurance Sector Assessment - Actuarial Profession; January 2004
- 12) Pension Fund Reform Assessment; November 2003
- 13) Consultations on IT Requirements - Common Banking Database; November 2003
- 14) Insurance Sector Assessment; October 2003
- 15) Court Administration Assessment; May 2003
- 16) Enforcement of Secured Transactions and Bankruptcy Norms in BiH; May 2003
- 17) Sustainability Consultations-State Deposit Insurance Agency; January 2003
- 18) Sustainability Consultations-Entity Banking Agencies; January 2003

A More Participatory Inclusive Democratic Society (Strategic Objective 2.1)

- 19) Civil Society Assessment; May-June 2004
- 20) Review of the Implementation of the Civil Service Law in BiH; April 2004
- 21) Local Governance Assessment and Policy Recommendations; October 2003
- 22) Priorities and Partners: Developing the Rule of Law in Bosnia-Herzegovina; June 2003
- 23) The Media Environment in BiH; January 2003

Required Cross-cutting Assessments

- 1) Conflict Resolution Assessment, July 2005
- 2) Gender Assessment, May 2005
- 3) Biodiversity Assessment in Bosnia and Herzegovina; October 2003

ANNEX 6

EU FEASIBILITY STUDY OF 16 CRITICAL POINTS

The European Commission has identified the following priorities for action in the course of 2004:

1. **Comply with existing conditionality and international obligations** – Fully co-operate with ICTY, particularly on the part of RS, notably in bringing indicted war criminals to justice before the international tribunal. (The April 1997 EU General Affairs Council identified this as a specific condition for proceeding to contractual relations.) Complete outstanding Road Map steps. Comply with the Dayton-Paris Peace Accords. Take steps to implement BiH's Council of Europe post-accession criteria, especially in areas of democracy and human rights.
2. **More effective governance** – Implement the Law on the Council of Ministers and the Law on Ministries. Convene meetings of the Council of Ministers and of Parliament with sufficient regularity to tackle government business expeditiously. Ensure that new State ministries and institutions created by the 2002 Law on the Council of Ministers become properly operational. Implement fully the 2003 – 2004 "Action Plan for Priority Reforms" and establish for 2004 (and following years) a consolidated State-level government work plan matching policy priorities with budgetary resources.
3. **More effective public administration** – Make further effort towards creating an effective public administration, including developing a comprehensive and cost-estimated Action Plan for public administration reform with a clear distribution of competences (for example in the areas of police and health). Fund and co-operate with the Civil Service Agencies at State and Entity levels.
4. **European integration** – Ensure the proper and full functioning of the Directorate for European Integration, including its aid co-ordination capacities.
5. **Effective human rights provisions** – Adopt and bring into force outstanding legislation supporting refugee returns. In particular, introduce, adopt and implement legislation on the BiH Refugee Return Fund. Complete the transfer of the human rights bodies to BiH control. Ensure that unresolved cases of the Human Rights Chamber are dealt with and that the Chamber's responsibilities are transferred to the Constitutional Court. Provide adequate funding for the Court. Assume full national responsibility for the State Ombudsman and make progress on the merger of the State and Entity Ombudsmen.
6. **Effective judiciary** – Adopt legislation establishing a single High Judicial and Prosecutorial Council for BiH with the aim of consolidating appointment authority over the Entity judiciaries and strengthening the independence of the judiciary throughout BiH. Provide appropriate staff and funding for the State Court.
7. **Tackling crime, especially organized crime** – Build up a State-level law enforcement capacity by allocating the necessary resources and facilities to ensure the full functioning of the State Information and Protection Agency and the BiH Ministry of Security. Proceed with structural police reform with a view to rationalizing police services.
8. **Managing asylum and migration** - Ensure the establishment and operation of proper structures dealing with asylum and migration
9. **Customs and taxation reform** – Proceed with implementation of the recommendations of the Indirect Tax Policy Commission. Ensure parliamentary adoption of the Law on the Indirect Tax Authority, including the adoption of the related enabling legislation. Ensure implementation, including the appointment of a Director for the Indirect Tax Authority and the functioning of the new customs authority. Demonstrate progress in preparing the introduction of VAT with a view to beginning on schedule.

- 10. Budget legislation** – Adopt and start to implement a budget law covering multi-annual budget planning and forecasting and start to elaborate a consolidated government account.
- 11. Budget practice** – Take steps to record all income accruing to public authorities at different levels of government, including grants and other forms of international assistance.
- 12. Reliable statistics** – Implement the Law on Statistics, aiming at the creation of a functioning system of statistics with clear lines of responsibility and co-ordination mechanisms.
- 13. Consistent trade policy** – Establish a coherent and comprehensive trade policy and revise existing legislation to ensure a consistent policy on free zones. Establish at State-level certification and other procedures for the export of animal products and a phyto-sanitary office that are EC-compatible, with a view to promoting exports, but also enhancing standards and the single economic space.
- 14. Integrated energy market** – Implement Entity Action Plans for the restructuring of the electricity market.
- 15. Develop the BiH single economic space** -Establish the Competition Council. Introduce provisions on the mutual recognition of products in the legal order of BiH and implement a consistent and effective public procurement regime throughout the country. Remove all duplicate licenses, permits and similar authorization requirements to allow service providers (including financial institutions) to operate throughout BiH without having to fulfill unnecessary administrative requirements. Create a single business registration system that is recognized throughout BiH.
- 16. Public broadcasting** – adopt legislation in line with European standards and the Dayton – Paris Peace Accords and take steps to ensure the long-term viability of a financially and editorially independent single state-wide public broadcasting system for Bosnia and Herzegovina, whose constituent broadcasters share a common infrastructure.

ANNEX 7

MEDIUM TERM DEVELOPMENT PLAN PRIORITY AREAS FOR ATTAINMENT OF (PRSP) GOALS

Achieve a general consensus in the society regarding the reform program to be implemented in the coming period

- **Maintain macroeconomic stability**
- **Implement fiscal system reform**
- **Secure faster of the export-oriented private sector, which will require:**
 - a) enhancement of the business environment for domestic and foreign investment and the support to the development of the entrepreneurship
 - b) acceleration of the privatization process
 - c) reduction of the corruption in the society, and implementation of the judiciary reform,
 - d) maintaining stability of the financial markets and faster development of capital markets,
 - e) implementation of the labor market reform,
 - f) further liberalization of the foreign trade in the region
 - g) support to exports
- **Implement the public administration reform**
- **Establish an adequate system of social assistance**
- **Implement sectoral reforms, in particular:**
 - a) educational reform
 - b) liberalization of the electric power market
 - c) liberalization of the postal and telecommunications market
 - d) securing greater support for agricultural production
- **Conclude the Stabilization and Association Agreement with EU, which should result from the implementation of the above reforms**
- **Achieve full membership in the WTO.**
- **These priorities are developed in more detail in other parts of the BiH Medium-Term Development Strategy (PRSP)**

LIST OF ACRONYMS

ADR	Alternative Dispute Resolution
APS	Annual Program Statement
BDP	Business Development Program
BiH	Bosnia and Herzegovina
BIOFOR	Biodiversity Conservation and Sustainable Forestry
CAPP	Civic Advocacy Partnership Program
CCA	Cluster Competitiveness Activity
CEE	Central Eastern Europe
CIDA	Canadian International Development Agency
DCA	Development Credit Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
FSVC	Financial Services Volunteer Corps
GAP	Government Accountability Project
GDA	Global Development Alliances
GDP	Gross Domestic Product
GEF	Global Environment Fund
GIS	Geographic Information System
IC	International Community
ICAR	Interagency Country Assistance Review
ICT	Information Communication Technology
ICTY	International Criminal Tribunal for the Former Yugoslavia
IDP	Internally Displaced Person
IMF	International Monetary Fund
IR	Intermediate Result
ISO	International Organization for Standardization
IT	Information Technology
JICA	Japan International Cooperation Agency
LAMP	Linking Agricultural Markets to Producers Activity
LEAP	Local Environmental Action Plans

LSMS	Living Standards Measurement Survey
MAP	Mediterranean Action Plan
MCP	Monitoring Country Programs
MoAWF	Ministry of Agriculture, Water Management and Forestry
MTDS	Medium Term Development Strategy
NATO	North Atlantic Treaty Organization
NEAP	National Environmental Action Plan
NGO	Non-Government Organization
OE	Operating Expenditure
OHR	Office of the High Representative
OSCE	Organization for Security and Co-operation in Europe
OYB	Operating Year Budget
PRSP	Poverty Reduction Strategy Program
REC	Regional Environmental Center
REPeP	Regional Environment Reconstruction Program for South Eastern Europe
RS	Republika Srpska
SEED	Support for Eastern European Democracy
Sida	Swedish International Development Agency
SME	Small and Medium Enterprise
SO	Strategic Objective
TIP	Trafficking in Persons
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
VAT	Value Added Tax
WID IQC	Women in Development Indefinite Quantity Contract
WTO	World Trade Organization